

Claire Madden
GNI (UK),
PO Box 51,
Gasworks Road
Cork

Ref: CNO/G/TH/210

10th August 2017

Dear Claire,

GNI (UK) Price Control Determination 1 October 2017 – 30 September 2022

This letter sets out the Northern Ireland Authority for Utility Regulation's (NIAUR) decision on GNI (UK)'s allowed operating expenditure allowances and return on capital over the next price control period 1 October 2017 to 30 September 2022. All figures are quoted in March 2016 monies and should be adjusted in accordance with the licence for application during the control period. The detailed explanation for these decisions is set out in our determination published on our website on 1 August 2017.

Allowed Operating Expenditure Condition 2.2.4 (h)

The table below sets out the determination of allowances for controllable and uncontrollable operating expenditure. We believe that GNI (UK) receives sufficient return on capital to accept the level of cost risk associated with being required to fund a very limited level of operating expenditure. We would therefore not intend, subject to licence conditions 2.2.4 (i – j), to adjust the level of these allowances, other than in the specific circumstances as set out below.

In respect of uncontrollable operating expenditure, business rates and licence fees will be treated as pass through items with the final allowance equal to actual expenditure through licence condition 2.2.4 (k).

In respect of asset replacement we recognise that the number of assets replaced, refurbished, recalibrated, etc. during a price control period may differ from the number assumed when the outputs were defined as part of the price control review.

- If an output is not delivered during a price control period but deferred into a subsequent one, a related allowance will not be granted a second time at such later date.

- Should it subsequently be determined that a higher number of outputs is required, this can be addressed through licence conditions 2.2.4 (j).

In addition, during the course of the price control review we identified two projects, AGI Security and GMO NI emergency management module with time to fail model, for which insufficient evidence was available to determine whether or not an allowance should be provided to fund this activity. Should it subsequently be determined that an allowance is justified then this will be accommodated through licence condition 2.2.4 (j).

In respect of GMO NI, any realignment in the pattern of contractual responsibility for the resources deployed by licence holders, and therefore of expenditure will be accommodated by adjusting the uncontrollable operating expenditure allowance through licence condition 2.2.4 (k). Subject to a determination that such an adjustment is justified.

Table 1: GNI (UK) post-efficiency final determination – in March 2016 prices

Cost Category	Final Determination					
	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	Total £m
Administration	0.879	0.876	0.901	0.894	0.889	4.439
Asset Replacement	0.338	0.502	0.620	0.625	0.182	2.268
Planned Maintenance	1.961	2.262	1.962	2.007	2.021	10.214
Unplanned Maintenance	0.474	0.485	0.457	0.454	0.451	2.321
System Operation	0.385	0.387	0.391	0.394	0.397	1.955
GMO NI Costs	0.433	0.412	0.385	0.382	0.380	1.992
Uncontrollable Costs	1.765	1.756	1.813	1.856	1.869	9.060
Total	6.235	6.682	6.530	6.614	6.189	32.248

Rate of Return Condition 2.2 Annex A Part 5

The table below sets out the determination of the values that should be input into the capital repayment model to calculate the Capital Revenue Requirement. We do not determine the rate of return per se but rather the value of the components which are input into the formula set out in Condition 2.2 Annex A Part 5 Rate of Return (a).

Table 2: Calculation of Capital Revenue Model Inputs

WACC Component	Final Determination	
	[%]	[Licence value]
Gearing - Licence Condition 2.2 Annex A Part 5 Rate of Return (a) g_t	65%	0.65
Real Cost of Debt - Licence Condition 2.2 Annex A Part 5 Rate of Return (a) d_t	1.34%	0.0134
Nominal Post Tax Cost of Equity - Licence Condition 2.2 Annex A Part 5 Rate of Return (a) re_t	8.70%	0.087

Yours sincerely,



Tanya Hedley
Director of Compliance and Network Operations
For and on behalf of NIAUR

